

# **STATEMENT OF INDEBTEDNESS**

## **INSTRUCTIONS**



**STATE CONTROLLER**

**DIVISION OF ACCOUNTING AND REPORTING**

## **Statement of Indebtedness Instructions**

Section 33675 of the California Health and Safety Code provides a procedure to be followed in allocating and paying to redevelopment agencies that portion of taxes as required by Section 33670(b). An integral part of the procedure requires that redevelopment agencies file a Statement of Indebtedness (SOI) with the county auditor or officer responsible for the payment of taxes into the funds of the respective taxing agencies. Such Statements of Indebtedness shall be filed annually for each project area of an agency, not later than October 1st.

Assembly Bill 1290, Chapter 942, Statutes of 1993, effective January 1, 1994, added to this process the requirement for each redevelopment agency to also prepare, as a part of the SOI, a Reconciliation Statement (RS), and to calculate the Available Revenues at year-end, as defined. Instruction for these forms follow.

These forms shall be used by redevelopment agencies in meeting the requirements of H & S Code Section 33675.

### **Definition of Terms:**

#### **Submission Date**

The October 1 following the end of a Fiscal Year.

#### **Fiscal Year**

The twelve month period ending on the June 30 preceding the Submission Date.

#### **Tax Year**

The twelve month period commencing the July 1 prior to the Submission Date.

#### **Due During Tax Year**

Amounts of principal and interest due in the tax year in which the statement of indebtedness is filed.

The Statement of Indebtedness requires an agency to report, in part, "Principal and Interest Due During Tax Year". The Reconciliation Statement requires an agency to report, in part, all amounts paid against indebtedness during the fiscal year, broken down to payments made from tax increment funds, and payments made from all other sources of funds. This may bring to question the exact definition of "amounts paid" and "amounts due". Unfortunately, these definitions are not provided for in the Health and Safety Code.

Bond indentures may require the "prefunding" of payments to be made to bond holders during a tax year. That is, an agency may be required to transfer tax increment to a trustee prior to the tax year for which the SOI is filed. In this case, the tax increment transferred would necessarily be increment received prior to the tax year. The question becomes, what amounts should be reported on the SOI and Reconciliation Statements: the amounts paid to the Trustee during the tax year, or the amounts due to the bond holder during the tax year per the debt schedule?

Working through the required documents, it should become apparent that, so long as an agency is consistent in its application, either assumption will work. It is not the purpose or intent of these instructions to provide a strict definition for determining which method to use, primarily due to the variety of terms of indentures and agreements that exist.

When preparing the Statement of Indebtedness, Reconciliation Statement, and Calculation of Available Revenues, the use of consistency from year to year for each indebtedness item is imperative, regardless of the method chosen to identify "paid" or "due".

The Statement of Indebtedness can be looked upon as a "Statement of Future Tax Increment Requirements." Agencies have, by law, several obligations for the use of tax increment in addition to repayment of indebtedness. This includes the obligation to the Low and Moderate Income Housing Fund (20% set-aside), as well as obligations to pass-through tax increment to other local taxing agencies. Although somewhat difficult to calculate due to the fact that these amounts are primarily dependent upon actual tax increment receipts, nevertheless, an attempt should be made annually to determine the project area's obligation to these, as applicable. The reason is simple:

If an agency shows only \$1,000 in total indebtedness, not including its 20% set-aside obligation, and more than \$1,000 in increment is generated from the increased assessed valuation, the agency will only receive \$1,000. However, the 20% set-aside will leave the agency only \$800 for indebtedness repayment, an amount insufficient to meet the full indebtedness obligation. The solution would be to include the 20% set-aside obligation on the Statement of Indebtedness. If this agency had done so, the total indebtedness would have been \$1,250. Twenty percent of \$1,250 is \$250, leaving \$1,000 to meet the remaining indebtedness obligation. This concept can be utilized to include any pass-through obligations an agency may have.

When all forms are used as directed, an agency will have disclosed: the total amount of tax increment an agency will need to satisfy any and all uses of tax increment for the life of the project (Form A plus Form B), the manner in which this year's Statement of Indebtedness was calculated (Reconciliation Statement), and the current year's use of tax increment (Reconciliation Statement plus the Calculation of Available Revenues).

## Statement of Indebtedness.

General. Health and Safety Code Section 33675(c)(2) permits an agency to include on the SOI indebtedness entered into up to the date the SOI is filed. Since the SOI is filed on or before October 1 of each year, this could include indebtedness which was incurred after the end of the fiscal year as defined in Section 33675(k). However, the Reconciliation Statement and Calculation of Available Revenues are held to the July 1 -June 30 fiscal year period due to this definition of "fiscal year".

To assist agencies in the preparation of these forms, and yet allow some form of reconciliation, a three part SOI has been developed.

### Cover Page.

This page is an accumulation of data from Form A and B, and is used to total all outstanding indebtedness for the SOI. No detail is provided for on this page. Further instructions follow.

### Form A.

This form is to be used for all indebtedness of the fiscal year period, as defined. As the instruction that follow indicate, this form allows for multiple pages of data to be accumulated to determine the June 30 total indebtedness. ***The only items to be included in the Reconciliation Statement and Calculation of Available Revenues will be those items listed on this form.***

### Form B.

At an agency's option, indebtedness incurred post June 30 of the fiscal year may be included on the SOI by completing this form. It is almost identical to Form A, and the instructions are the same, **with the exception that only indebtedness entered into after the fiscal year, and up to the date of the filing of the SOI** may be included on this form. ***Do not include any items listed on Form B on the Reconciliation Statement and Calculation of Available Revenues included with this SOI.***

Items listed on Form B of a SOI must be identified in the **following year's** Reconciliation Statement. If the indebtedness has not been satisfied, and is still outstanding in the following fiscal year, that item will be listed on the following year's SOI, Form A.

## Specific Instructions

### Cover Page

1. Project Identification. Identify the project area by name. For each project area, the redevelopment plan for which provides for the division of taxes pursuant to H & S Code Section 33670, a separate SOI shall be prepared, certified to by the chief financial officer of the redevelopment agency, and submitted to the county auditor or officer (as described above).

2. Line (1) Fiscal Period - Totals. Carry forward the amounts from the line entitled "Totals, Fiscal Year Indebtedness" from Form A, page 1, "Current" columns only.
3. Line (2) Post Fiscal Period - Totals (Optional). Carry forward the amounts from the line entitled "Totals, Post Fiscal Year Indebtedness" from Form B, page 1, "Current" columns only.
4. Line (3) Grand Totals. Sum lines 1 and 2.
5. Line (4) Available Revenues. The amount calculated pursuant to the Calculation of Available Revenues document, line 7.
6. Line (5) Net Requirement. The excess of outstanding debt over available financing, line 3 less line 4. ***The county auditor shall pay the portion of taxes provided by subdivision (b) of Section 33670 to each agency not to exceed this amount per project area.***
7. Certification of Chief Financial Officer. Health and Safety Code Section 33675(b) requires the Chief Financial Officer of the agency to certify the document as a true and accurate Statement of Indebtedness for the agency. Print or type the Financial Officer's name and title on the line above the Signature, dated the day the document is signed.

#### Form A.

General. This form is designed to accommodate any number of items of indebtedness applicable to a redevelopment project area. If there are ten or fewer items of indebtedness, the information may be reported by using page 1 of Form A only.

If more than ten items of indebtedness exist, additional pages may be used as necessary and identified by page number (as indicated in the upper right hand corner). In the event additional pages are used, a total line is provided on each page to assist in the accumulation of "grand totals" for page 1 of Form A.

1. Project Identification. Identify the project area by name.
2. Debt Identification. Identify each indebtedness as uniquely as possible by the type of indebtedness. Examples of types of indebtedness are: Bonds, Notes, Leases, Advances, Contracts to Purchase, Repayment Obligations, obligations to the Low and Moderate Income Housing Fund, obligations to other local taxing entities for Pass-through Payments, Development Agreements, Other Indebtedness, and so forth. The page and line reference used on the SOI, Form A, will be used by reference on the Reconciliation Statement each year.

Do not include indebtedness which is not a debt of the agency. Examples include, but are not limited to, issues which have been fully defeased, Certificates of Participation fully covered by revenues from other sources and not requiring, or having pledged, tax increment revenues, and Mortgage Revenue Bonds.

**No loan, advance, or indebtedness that an agency intends to pay from the Low and Moderate Income Housing Fund shall be listed on a statement of indebtedness or Reconciliation Statement as agency indebtedness.**

3. Date. For each indebtedness enter the date the indebtedness was entered into or incurred.
4. Original Principal Amount. Enter the amount of obligation incurred on the date shown in the preceding column. This amount will remain the same in subsequent years, even if the indebtedness principal has increased after the original issuance.
5. Term. Enter the original term of the obligation being reported, if known.
6. Interest Rate. Enter the original rate of interest to be paid on the obligation.
7. Original Interest on Indebtedness. Enter the original amount of total interest expected to be paid over the life of this obligation. Use estimates if necessary.
8. Total Outstanding Debt. From the Reconciliation Statement, bring forward Column (F), Remaining Balance for all lines with an ending balance. This column represents the total principal and interest remaining to be paid.
9. Principal/Interest Due During Tax Year. The total amount of principal and interest due during the tax year (as defined in the heading).
10. Page Totals. Total for each page of the Statement of Indebtedness.
11. Totals Forward From All Other Pages. Accumulate the totals of Form A, page(s) 2 to \_\_\_\_ on this line.
12. Totals, Fiscal Year Indebtedness. Total the above two columns to arrive at the total indebtedness at June 30 of the fiscal year. Carry this forward to the Cover Page, line (1).
13. Purpose of Indebtedness. The purpose, stated in concise terms, for each indebtedness listed above.

#### Form B (Optional)

General. Follow all instructions for Form A, with the only exception being ***the only items of indebtedness to be included on Form B will be indebtedness entered into AFTER June 30 of the Fiscal Year.*** Assuming that a limited number of items of indebtedness will be listed on this form, only twelve (12) lines were provided. Any single item of indebtedness ***may never appear on Form B in two consecutive years.***

Carry forward the total line of Form B to the Cover Page, line (2).

#### Reconciliation Statement

General. These forms are to be completed as part of the annual filing requirement for the SOI, and can assist in the preparation thereof. Multiple pages again may be used, if necessary, with the grand totals accumulated on page 1.

***Only items listed on the SOI, Form A, are to be included on the Reconciliation Statement. Do not include any indebtedness listed on Form B. Items listed on a previous year's Form B must ALWAYS appear on the current Reconciliation Statement as "new" indebtedness, EVEN IF FULLY REPAID PRIOR TO THIS FISCAL YEAR END.***

1. Tax Year. Refer to the definition of terms.
2. Reconciliation Dates. The fiscal year for this SOI. For a SOI filed October, 1994, this would be July 1, 1993 to June 30, 1994.
3. Debt Identification. List each indebtedness from the previous year's statement of indebtedness as referenced by the page and line used on that document. For any new indebtedness entered into during the fiscal year, enter "New" in the Page/Line reference column. **If the item was included on Form B of the previous SOI, indicate so in the description column. Since the Reconciliation Statement is a fiscal year document, any indebtedness not** included on the previous Reconciliation Statement (previous SOI Form B items) is considered "new" indebtedness for the current Reconciliation Statement. Include a brief description of each indebtedness for verification purposes.
4. Outstanding Debt All Beginning Indebtedness - (Col A) All beginning balances of all indebtedness during the fiscal year. First list all previous indebtedness, as listed on the SOI filed in the previous year. Follow this with any new indebtedness entered into during the fiscal year. This may include indebtedness entered into and satisfied in full during the fiscal year. If this case, the amount outstanding in column F should be 0. The grand total for this column represents the "starting point" for all indebtedness during the fiscal year.
5. Adjustments - (Col B) Use this column to list any adjustments made to existing indebtedness which increased or added to the indebtedness shown in column A. Examples include, but are not limited to, increases in contractual obligations due to unforeseen events, interest added to principal on advances from the legislative body of the agency, and so on.
6. Adjustments - (Col C) Use this column to list any adjustments made to existing indebtedness which decrease or reduce the indebtedness shown in column A. Examples include, but are not limited to, reductions in estimates used on the previous SOI, "forgiveness" of existing obligations, and other such decreases or reductions. **Do not include payments against indebtedness.**

A description of the adjustments used in Columns B and C should be provided on an accompanying form of the agency's choosing. List individual items of adjustment separately if multiple adjustments are accumulated on any line and column. Be as descriptive as necessary to provide a reasonable understanding of the adjustment.

7. Amounts Paid Against Indebtedness (Col D) and (Col E). List all principal and interest payments made against all indebtedness during the fiscal year, whether paid from tax increment revenues or from any other source. Segregate payments by tax increment in column (D), and by any other source in column (E). For this purpose, consider the original source of the revenue used, regardless of the fiscal year in which the revenue was received. For instance, if the agency has chosen to recognize payments to bond-holders as the "measurement focus" for "Amounts Due/Paid Against Indebtedness", payments made to a fiscal agent from tax increment in a previous fiscal year, and used to repay indebtedness in this fiscal year should be included under the Tax Increment column, (Col D).
8. Remaining Balance (Col F). The total of columns A through E. This represents the ending indebtedness for the fiscal year, after the application of all transactions occurring during the fiscal year. **This column must equal the column on the SOI Form A entitled "Total Outstanding Debt".**

### Calculation of Available Revenues

General. In order to calculate the Net Requirement for Tax Increment, redevelopment agencies must calculate available revenues at the fiscal year end. **For the purposes of calculating the available revenues, fiscal year is to be the same as the Reconciliation Statement, with the same June 30 ending.** Only one sheet is necessary per project area, as available revenues are determined by project area as a whole.

The term "available revenues" is defined in Section 33675(e) as *"...available revenues shall include all cash or cash equivalents held by the agency that were received by the agency pursuant to Section 33670 and all cash or cash equivalents held by the agency that are irrevocably pledged or restricted to payment of a loan, advance, or indebtedness that the agency has listed on a statement of indebtedness. In no event shall available revenues include funds in the agency's Low and Moderate Income Housing Fund established pursuant to Section 33334.3."*

1. Available Revenues - Beginning (Line 1). This will always be carried over from the previous years ending available revenues. For the statements filed in October, 1994, determine the beginning balance based on an examination or audit of the agency's books and records for the 1990-91, 1991-92 and 1992-93 fiscal years, using the criteria established in the definition of available revenues.



2. Tax Increment Received - Gross (Line 2). The gross amount of the tax increment revenues the agency received during the fiscal year, as defined above, **inclusive of the amount of tax increment set-aside to the Low and Moderate Income Housing Fund**. Also include any amounts paid to other local taxing agencies as "pass-through" payments, regardless of who distributed those payments.

Note - in order to balance properly, an agency **must have listed it's pass-through obligations and obligations to the Low and Moderate Income Housing Fund on the SOI, and include those payments on the Reconciliation Statement**.

Also, since all tax increment revenues are being accounted for here as available revenue received, an agency must also include all uses of tax increment revenues, so long as it is used to pay indebtedness as listed on the previous year's SOI, or indebtedness which has been entered into and paid, in part or in whole, during the current year. This will require agencies to use tax increment **solely** for the purpose of repayment of indebtedness, in accordance with Health and Safety Code Section 33670(b). If an agency used tax increment for any other purpose during the fiscal year ***without including those transactions on the reconciliation statement***, that amount will remain in this calculation as available revenues at fiscal year end, potentially reducing the tax increment available to it for the following year.

3. All Other Available Revenues (Line 3). Include here all non-tax increment revenues that meet this definition.
4. Other Revenues (Line 4). Enter the amount of revenues from any other source than tax increment or available revenues, as defined above, which were used in the repayment of indebtedness as included in column E in the Reconciliation Statement. The purpose of this calculation is to determine any amounts used to reduce indebtedness listed on the previous year's SOI, but that were not tax increment revenue or "available revenues" as defined. This may include debt proceeds, advances, increases in liabilities, and any other source of revenue used to repay indebtedness.
5. Sum of Lines 1 through 4 (Line 5). Add all of lines 1 through 4 on the form. This represents the total of all revenues used, or available for, indebtedness reduction during the fiscal year.
6. Total Amounts Paid Against Indebtedness (Line 6). Sum of columns D and E on the Reconciliation Statement. ***This amount should never exceed the total of line 5.*** If it does, the preparer has failed to include as a source of revenue funds which were used to repay indebtedness per the reconciliation statement. The purpose of line 4 is to capture these items, regardless of their source.
7. Available Revenues, End of Year (Line 7). Deduct line 6 from 5. This calculates the project area Available Revenues at fiscal year end. This amount is to be carried forward to the Available Revenues line on the SOI Cover Page, Line (4).